The Fiscal Monitor

A Publication of the Department of Finance

Highlights

June 2007: budgetary surplus of $2.8 billion

There was a budgetary surplus of $2.8 billion in June 2007, up $0.6 billion from the $2.3-billion surplus recorded in June 2006. Budgetary revenues were up $1.5 billion, or 7.6 per cent. All revenue streams, with the exception of customs import duties and sales and excise taxes, were higher. Program expenses increased by $0.9 billion, or 6.4 per cent, largely due to growth in transfers to other levels of government and an increase in departmental operating expenses. Public debt charges were down $47 million.

April to June 2007: budgetary surplus of $6.4 billion

For the first three months of the 2007–08 fiscal year, the budgetary surplus is estimated at $6.4 billion, up $0.5 billion from the $5.9-billion surplus reported in the same period of 2006–07. Budgetary revenues increased $3.9 billion, or 6.9 per cent, driven by gains in income tax revenues and non-tax revenues. Program expenses rose by $3.2 billion, or 7.6 per cent, reflecting an increase in transfer payments and operating expenses of departments and agencies, including National Defence. Public debt charges increased by $0.2 billion, or 2.5 per cent, reflecting an increase in the average effective interest rate on the stock of interest-bearing debt.

Quarterly update of 2007–08 surplus projection: surplus expected to come in higher than Budget 2007 projection of $3 billion

The outlook for 2007–08 has been influenced by a number of developments since the Budget 2007 projection in March.

- Economic performance has been stronger than expected. Private sector forecasters have revised up their outlook for nominal gross domestic product (GDP) growth in 2007 to 5.2 per cent from 3.9 per cent at the time of Budget 2007. This would leave the level of nominal GDP, the broadest measure of the tax base, approximately $20 billion higher in both 2007 and 2008 than projected in the budget.
- The year-to-date financial results also suggest that revenues will be higher than had been anticipated in March.

Taken together, these developments indicate that the budgetary surplus for 2007–08 will exceed the Budget 2007 projection of $3 billion. This quarterly update is qualitative rather than quantitative, reflecting in large part the fact that only three months of fiscal data are available for the 2007–08 fiscal year, which are not sufficient to provide an update to the Budget 2007 projection with a reasonable degree of confidence. A comprehensive update of the fiscal outlook for this year and beyond will be provided in the fall Economic and Fiscal Update.

June 2007

There was a budgetary surplus of $2.8 billion in June 2007, up $0.6 billion from June 2006.

Budgetary revenues increased by $1.5 billion, or 7.6 per cent, to $20.7 billion.

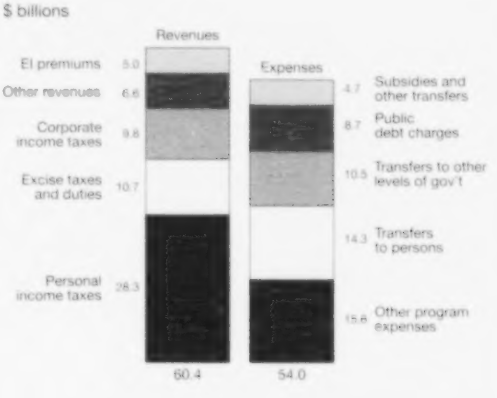
- Personal income tax revenues were up $0.7 billion, or 7.2 per cent, driven by higher source deductions, consistent with the gains in employment and wages and salaries.
- Corporate income tax revenues rose $0.1 billion, or 4.6 per cent, in June, following 13.0 per cent growth in May. This volatility in corporate income tax receipts is not unusual, as large refunds or settlement payments may be recorded in any given month. In addition, assessments or reassessments, which can relate to activity that took place in prior years, can influence results in a given month.
- Other income tax revenues—withholdings from non-residents—increased by 11.2 per cent.
- Excise taxes and duties were up $0.1 billion, or 1.8 per cent. A $0.1-billion, or 4.2-per-cent, rise in goods and services tax (GST) revenues was partly offset by a $47-million, or 5.6-per-cent, decline in sales and excise taxes.
- Employment insurance (EI) premium revenues edged up 1.4 per cent, as improvements in employment and wages and salaries more than offset the decline in the premium rate from $1.87 to $1.80 per $100 of insurable earnings, effective January 1, 2007.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, were up $0.5 billion, or 33.1 per cent. This revenue stream is volatile on a monthly basis, due in part to variations in the timing of large transactions from year to year.

Program expenses in June 2007 were $15.0 billion, up $0.9 billion, or 6.4 per cent, from June 2006, reflecting increases in transfer payments and operating expenses of departments and agencies, including National Defence.

Transfer payments were up $0.4 billion, or 4.8 per cent.

- Transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, were up $0.4 billion, or 8.8 per cent. Elderly benefits increased 4.5 per cent and EI benefits increased 4.9 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the new Universal Child Care Benefit (UCCB), were up $0.2 billion, or 27.0 per cent, reflecting transfers under the UCCB, which began in July 2006.
- Transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up $0.4 billion, or 13.7 per cent. This increase is largely attributable to a $250-million transfer to provinces and territories to support the

Revenues and expenses
(April to June 2007)



creation of new child care spaces, the enabling legislation for which received Royal Assent in June.

- Subsidies and other transfers decreased by $0.4 billion, or 23.8 per cent.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses increased $0.5 billion, or 9.3 per cent, with higher transfers to Crown corporations responsible for roughly half of this increase.

Public debt charges decreased by $47 million.

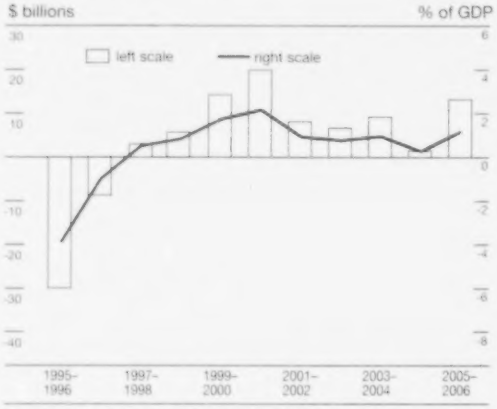
April to June 2007

Through the first three months of the 2007–08 fiscal year, there was a budgetary surplus of $6.4 billion, up $0.5 billion from the $5.9-billion surplus reported during the same period of 2006–07.

On a year-over-year basis, budgetary revenues increased by $3.9 billion, or 6.9 per cent, to $60.4 billion.

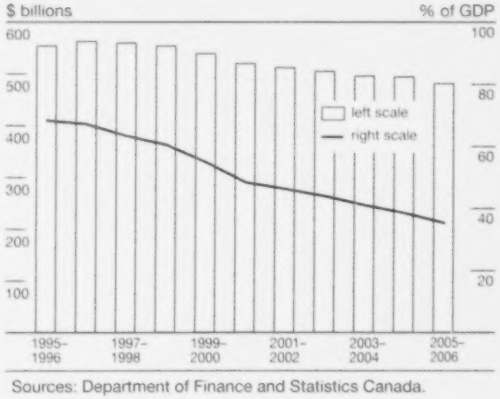
- Personal income tax revenues rose $1.5 billion, or 5.5 per cent, reflecting growth in employment and wages and salaries over the period.
- Corporate income tax revenues were up $1.6 billion, or 18.9 per cent, driven by gains in profitability in 2006 and the ongoing strength in corporate profits this year.
- Other income tax revenues rose 16.4 per cent, also reflecting the ongoing strength in corporate profitability.
- Excise taxes and duties were down $0.6 billion, or 5.4 per cent, largely due to a $0.7-billion decline in GST revenues. The drop in GST revenues reflects the 1-percentage-point reduction in the GST rate effective July 1, 2006. Sales and excise taxes fell by $34 million, while customs import duties were up $101 million and revenues from the Air Travellers Security Charge were up $10 million over the period.
- EI premium revenues increased by $0.2 billion, or 5.0 per cent, reflecting improvements in employment and wages and salaries, which more than offset the decline in the premium rate from $1.87 to $1.80 per $100 of insurable earnings, effective January 1, 2007.
- Other revenues increased $1.1 billion, or 24.5 per cent.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

Program expenses in the April to June 2007 period were $45.3 billion, up $3.2 billion, or 7.6 per cent, from the prior year, reflecting an increase in transfer payments and operating expenses of departments and agencies.

Transfer payments increased $1.6 billion, or 5.9 per cent.

- Transfers to persons rose $1.2 billion, or 8.8 per cent. Elderly benefits increased 4.4 per cent and EI benefits increased 6.1 per cent. Children's benefits were up $0.6 billion, reflecting transfers under the UCCB, which began in July 2006.
- Transfers to other levels of government were up $0.8 billion, or 8.6 per cent, reflecting legislated increases in the Canada Health Transfer, Canada Social Transfer and Equalization, as well as a $0.3-billion lump-sum transfer for child care spaces.
- Subsidies and other transfers were down $0.3 billion, or 6.8 per cent.

Other program expenses increased $1.6 billion, or 10.9 per cent.

Public debt charges increased by $0.2 billion, or 2.5 per cent, due to an increase in the average effective interest rate on the stock of interest-bearing debt.

Financial source of $4.9 billion for April to June 2007

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions

With a budgetary surplus of $6.4 billion and a requirement of $1.4 billion from non-budgetary transactions, there was a net financial source of $4.9 billion in the April to June 2007 period, compared to a net financial source of $0.3 billion in the same period last year.

Net financing activities down $21.4 billion

The Government used this net financial source of $4.9 billion and a reduction in its cash balances of $16.4 billion to reduce its market debt by $21.4 billion by the end of June 2007. The reduction in market debt was achieved largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of June stood at $4.8 billion.

Quarterly update of the fiscal outlook for 2007–08

This section provides a qualitative update of the fiscal outlook for 2007–08. A comprehensive update of the fiscal outlook will be provided in the fall Economic and Fiscal Update, which will incorporate the final audited results for 2006–07 and the most recent economic outlook by private sector economists.

Overview

The budgetary surplus for 2007–08 is now expected to come in higher than the Budget 2007 projection of $3 billion. The improved outlook stems from stronger-than-expected economic performance, as well as higher-than-anticipated revenues as suggested by year-to-date financial results. Program expenses are expected to be largely unchanged from the Budget 2007 outlook.

Economic outlook

Based on the June survey of private sector economic forecasters, the outlook for real GDP growth has been revised up to 2.5 per cent in 2007 from 2.3 per cent in Budget 2007. For 2008, forecasters expect real GDP growth of 2.7 per cent, lower than the 2.9 per cent expected at the time of the budget. Forecasters have significantly revised up their expectations for GDP inflation in 2007 to 2.7 per cent from 1.5 per cent in Budget 2007. The outlook for GDP inflation in 2008 has been revised up as well to 2.2 per cent from 2.0 per cent in Budget 2007. As a result, the outlook for nominal GDP growth in 2007 has been revised up significantly to 5.2 per cent from 3.9 per cent projected in Budget 2007, while nominal GDP growth for 2008 remains unchanged at 5.0 per cent. This would leave the level of nominal GDP approximately $20 billion higher in both 2007 and 2008 than projected in the budget. A new survey of private sector forecasters will be conducted in September, after the release of the second-quarter National Accounts, and the revised economic outlook will be used to update the fiscal projections to be presented in the fall Economic and Fiscal Update.

Fiscal outlook

The budgetary surplus for 2007–08 is now expected to come in higher than the Budget 2007 projection of $3 billion. The higher outlook reflects in part a significant upward revision to the economic outlook for 2007 along with stronger-than-expected economic activity last year. As well, year-to-date financial results suggest that revenues in 2007–08 will be higher than anticipated at the time of Budget 2007.

The degree to which the actual surplus for 2007–08 exceeds the Budget 2007 projection will depend on economic developments through the remainder of this fiscal year and the strength of tax revenues. As well, the Government is carefully managing spending to ensure that all government programs are effective and efficient. A comprehensive update of the fiscal outlook for this year and beyond will be provided in the fall Economic and Fiscal Update.

Table 1

Summary statement of transactions

	June		April to June	
	2006	2007	2006–07	2007–08
	($ millions)			
Budgetary transactions				
Revenues	19,254	20,708	56,479	60,360
Expenses				
Program expenses	-14,083	-14,990	-42,107	-45,303
Public debt charges	-2,916	-2,869	-8,487	-8,700
Budgetary balance (deficit/surplus)	2,255	2,849	5,885	6,357
Non-budgetary transactions	-4,762	-6,419	-5,563	-1,417
Financial source/requirement	-2,507	-3,570	322	4,940
Net change in financing activities	-5,502	-2,263	-15,490	-21,368
Net change in cash balances	-8,009	-5,833	-15,168	-16,428
Cash balance at end of period			2,794	4,779

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

Budgetary revenues

	June			April to June		
	2006	2007	Change	2006–07	2007–08	Change
	($ millions)		(%)	($ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	9,104	9,763	7.2	26,827	28,301	5.5
Corporate income tax	2,975	3,111	4.6	8,249	9,809	18.9
Other income tax	340	378	11.2	1,006	1,171	16.4
Total income tax	12,419	13,252	6.7	36,082	39,281	8.9
Excise taxes and duties						
Goods and services tax	2,552	2,659	4.2	8,100	7,406	-8.6
Customs import duties	289	288	-0.3	807	908	12.5
Sales and excise taxes	835	788	-5.6	2,319	2,285	-1.5
Air Travellers Security Charge	30	37	23.3	96	106	10.4
Total excise taxes and duties	3,706	3,772	1.8	11,322	10,705	-5.4
Total tax revenues	16,125	17,024	5.6	47,404	49,986	5.4
Employment insurance premiums	1,520	1,542	1.4	4,737	4,974	5.0
Other revenues	1,609	2,142	33.1	4,338	5,400	24.5
Total budgetary revenues	19,254	20,708	7.6	56,479	60,360	6.9

Note: Totals may not add due to rounding.

Table 3

Budgetary expenses

	June			April to June		
	2006	2007	Change	2006–07	2007–08	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,518	2,632	4.5	7,530	7,861	4.4
Employment insurance benefits	935	981	4.9	3,238	3,434	6.1
Children's benefits	784	996	27.0	2,392	3,026	26.5
Total	4,237	4,609	8.8	13,160	14,321	8.8
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,678	1,779	6.0	5,035	5,337	6.0
Canada Social Transfer	708	983	38.8	2,125	2,450	15.3
Total	2,386	2,762	15.8	7,160	7,787	8.8
Fiscal transfers	1,080	1,119	3.6	3,279	3,405	3.8
Canada's cities and communities	0	0	n/a	0	2	n/a
Alternative Payments for Standing Programs	-268	-245	-8.6	-805	-736	-8.6
Total	3,198	3,636	13.7	9,634	10,458	8.6
Subsidies and other transfers						
Agriculture and Agri-Food	28	135	382.1	221	229	3.6
Foreign Affairs and International Trade	94	132	40.4	529	596	12.7
Health	105	111	5.7	431	492	14.2
Human Resources and Social Development	110	176	60.0	499	516	3.4
Indian Affairs and Northern Development	318	368	15.7	1,293	1,331	2.9
Industry	171	142	-17.0	351	354	0.9
Other	750	137	-81.7	1,708	1,174	-31.3
Total	1,576	1,201	-23.8	5,032	4,692	-6.8
Total transfer payments	9,011	9,446	4.8	27,826	29,471	5.9
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	85	120	41.2	415	460	10.8
Canada Mortgage and Housing Corporation	88	167	89.8	468	454	-3.0
Other	266	383	44.0	915	1,070	16.9
Total	439	670	52.6	1,798	1,984	10.3
Defence	1,324	1,389	4.9	3,477	3,677	5.8
All other departments and agencies	3,309	3,485	5.3	9,006	10,171	12.9
Total other program expenses	5,072	5,544	9.3	14,281	15,832	10.9
Total program expenses	14,083	14,990	6.4	42,107	45,303	7.6
Public debt charges	2,916	2,869	-1.6	8,487	8,700	2.5
Total budgetary expenses	16,999	17,859	5.1	50,594	54,003	6.7

Note: Totals may not add due to rounding.

Table 4

The budgetary balance and financial source/requirement

	June		April to June	
	2006	2007	2006–07	2007–08
	($ millions)			
Budgetary balance (deficit/surplus)	2,255	2,849	5,885	6,357
Non-budgetary transactions				
Capital investing activities	-124	-125	-112	-129
Other investing activities	-68	-417	452	93
Pension and other accounts	1,142	479	966	1,260
Other activities				
Accounts payable, receivables, accruals and allowances	-5,541	-7,604	-8,642	-6,322
Foreign exchange activities	-392	975	1,078	2,854
Amortization of tangible capital assets	221	273	695	827
Total other activities	-5,712	-6,356	-6,869	-2,641
Total non-budgetary transactions	-4,762	-6,419	-5,563	-1,417
Net financial source/requirement	-2,507	-3,570	322	4,940

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	June		April to June	
	2006	2007	2006–07	2007–08
	($ millions)			
Net financial source/requirement	-2,507	-3,570	322	4,940
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-2,960	-8,026	-1,899	-3,210
Treasury bills	-1,900	5,700	-9,600	-14,900
Canada Savings Bonds	-92	-110	-218	-263
Other	-342	-253	-687	-393
Total	-5,294	-2,689	-12,404	-18,766
Foreign currency borrowings	-47	212	-2,823	-577
Total	-5,341	-2,477	-15,227	-19,343
Cross-currency swap revaluation	0	281	-2	-2,059
Unamortized discounts on debt issues	-142	-46	-227	56
Obligations related to capital leases	-19	-21	-34	-22
Net change in financing activities	-5,502	-2,263	-15,490	-21,368
Change in cash balance	-8,009	-5,833	-15,168	-16,428

Note: Totals may not add due to rounding.

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